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C O N F I D E N T I A L SECTION 01 OF 02 MASERU 000526

SIPDIS

DEPT PASS TO MILLENNIUM CHALLENGE CORPORATION (MCC)

DEPT FOR AF/S

E.O. 12958: DECL: 10/17/2015

TAGS: ETRD ECON BINV PREL LT KICC MCC

SUBJECT: MINISTER OF TRADE POSITIVE ON INVESTMENT, FTA AND ARTICLE 98

REF: MASERU 492

CLASSIFIED BY: JUNE CARTER PERRY, AMBASSADOR, EXEC, STATE.

REASON: 1.4 (b), (d)

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SUMMARY

¶11. (C) The Ambassador met October 12 with Minister of Trade and Industry Mpho Malie to exchange views on several high profile issues: the U.S. - SACU Free Trade negotiations; the status of pending legislation important for Lesotho's Millennium Challenge Account (MCA) proposal; and Article 98. Also discussed were the results of the Minister's trade promotion trip to the U.S. in June. Malie was positive about prospects for significant foreign investment in Lesotho. The FTA discussions were again on track, in his view, and the Minister echoed the promising comments by MFA Moleleki (Ref) regarding Article 98 in the near future. Ambassador Perry stressed the importance the USG attaches to an Article 98 agreement and the passage of certain legislation to improve gender equality and the business environment in Lesotho. She referenced potential submission of a shorter-term MCA proposal for Lesotho while work continues on interim technical support per June 4 609g Agreement and a future Environment and Social Impact Assessment (ESIA) on the Metolong Dam proposal. Also attending the meeting were MOTI Principal Secretary David Rantekoa and DCM (note taker). END SUMMARY

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FOREIGN INVESTMENT POSSIBILITIES; TRIP TO U.S.

¶12. (U) The Minister and Ambassador had not met since his travel to the U.S. and elsewhere in recent months. Malie described several promising investment possibilities. An Italian shoe manufacturer was exploring doing production in Lesotho, for example. Also, the GOL believed that sizeable clay deposits here could be used to establish a ceramics sector using multiple small-scale producers. Products from the ubiquitous spiral aloe also had potential.

¶13. (U) The Minister noted that an American businessman whom he had met during his trade promotion trip to the U.S. in June had entered into a joint venture with a Lesotho company for sandstone quarrying and processing. In general, the visit to the U.S. had been very worthwhile, he commented. In addition to the businessman/investor, Malie said he established good links with the tourism industry in Atlanta; there was interest in promoting group tours to Lesotho.

STATUS OF AND OPTIONS FOR MILLENNIUM CHALLENGE PROJECT

¶14. (SBU) Ambassador Perry described the state-of-play regarding Lesotho's proposal for MCA funding (design and construction of the Metolong Dam intended to provide a larger, more reliable source of water to the greater Maseru area) and other potential options for MCA support. As it now appears that the EISA required for Metolong would take one year, the Millennium Challenge Corporation (MCC) and the GOL could consider other, shorter-term activities while evaluation for the dam proposal continues. (Note: Potential funding for a separate dam proposal would be contingent on outcome of the ESIA.) Upgrading and repairing the dilapidated water distribution system, expanding irrigation systems, and developing a more vibrant housing and mortgage sector might be possible areas based on initial recommendations of the Finance and Foreign Affairs Ministers, but would require a formal request from the GOL and country-wide consultations. The success of any effort, as well

as Metolong, depended, however, on several important legal reforms, especially regarding land tenure and gender equality. (Currently, married women have the legal status of minors.) Ambassador Perry noted USG interest in making substantial progress on the MCC for Lesotho to alleviate poverty if the GOL had supportable national proposals.

15. (U) Malie agreed on the importance of the legislation. Action on the land tenure reform bill was imminent, he claimed. The Minister of Local Government (who has responsibility for the bill) intends to examine the draft legislation with a small group of Ministers (Malie included) once she is back in the

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country. This would smooth the way for Cabinet approval and then presentation to the National Assembly before the current session ends in December. The Minister promised to check with the Ministry of Justice on the status of the Equality of Marriage Act (which would, among other things, eliminate the inferior legal status of married women).

ARTICLE 98

16. (C) Reaching an agreement with Lesotho on Article 98 was also a high USG priority, Ambassador Perry stressed. Malie echoed the recent positive comments of MFA Moleleki (Ref), noting that the GOL was revisiting the issue. He hoped there would be significant positive developments before November. (Note: based on past discussions with Malie and other GOL officials on this issue, the Minister is one of several strongly in favor of an Article 98 agreement.)

U.S. - SACU FTA

17. (SBU) Malie agreed with the Ambassador's point about the importance of concluding an FTA by the revised deadline of 2006. The preparations for and results of national elections in Lesotho in the first half of 2007 could complicate the negotiations if still ongoing. Malie saw the FTA as beneficial not only for SACU, but in the long-term also for SADC, especially when a customs union is in place. He credited the July Deputies meeting in Geneva with providing the impetus for the resumption of negotiations. Both sides, the Minister felt, recognized the strain on resources involved in the negotiating process process; hence, there is a mutual desire to return to the bargaining table with a clear approach and timeline to reach agreement. PS Rantekoa concurred, stating that the Gaborone session's most important accomplishments were establishment of a schedule of negotiations, agreement on the order of topics to be covered (starting with NAMA) and general discussions on "second generation" issues, such as services and intellectual property, before formal negotiations on them commence. The SACU Ministers hope to assess progress on the negotiations at a side meeting during the Hong Kong WTO Ministerial, he added.

COMMENT

18. (C) Malie clearly concurs with the importance we attach to the issues raised and understands how they affect the U.S. - Lesotho relationship. Being one of the best-informed and most capable members of the Cabinet, his support is critical in trying to make progress on many issues. His comments on Article 98 are additional grounds for cautious optimism that this long-standing matter can be resolved. Under Malie's leadership, Lesotho has been and will continue to be an engaged and constructive party to the FTA and WTO negotiations. Malie, a tireless and effective promoter of business investment in Lesotho, was very receptive to the idea of a Corporate Council for Africa trade delegation to Lesotho if at all possible. END COMMENT.